



Thrift Savings Plan BULLETIN

for Agency TSP Representatives

Subject: Thrift Savings Plan In-Service Withdrawals

Date: September 18, 2001

The Federal Retirement Thrift Investment Board (Board) has revised the Thrift Savings Plan (TSP) booklet *TSP In-Service Withdrawals*, the forms that must be used to request in-service withdrawals, and the tax notice relating to in-service withdrawals. These revised products, dated July 2001, are attached to this bulletin. **They supersede all prior versions of the products, and agencies should discard their supplies of prior versions of these products when they receive the July 2001 revisions.**

This bulletin contains updated information about the in-service withdrawal program and describes actions that agencies must take to administer the six-month restriction on making TSP contributions which applies to participants who receive financial hardship in-service withdrawals.

I. Types of In-Service Withdrawals

A. Age-based in-service withdrawal

Eligibility. Employed participants who are age 59½ or older may withdraw all or any portion of their vested account balances.

Minimum amount of withdrawal. The minimum amount of an age-based in-service withdrawal is \$1,000 or the participant's entire vested account balance, whichever is less.

Participants may elect to receive a dollar amount or their entire vested account balance. If participants elect a dollar amount that is greater than the vested account balance, they will receive their entire vested account balance. Participants cannot elect a dollar amount less than \$1,000. If, however, the vested account balance is less than \$1,000, they may elect to receive the entire vested balance.

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Inquiries: Questions concerning the provisions of this bulletin should be directed to the Federal Retirement Thrift Investment Board at **202-942-1460**.

Chapter: This bulletin may be filed in Chapter 9, Withdrawal Program.

Supersedes: This bulletin supersedes TSP Bulletin 98-26, Thrift Savings Plan In-Service Withdrawals, dated August 12, 1998.

Limit on number of age-based in-service withdrawals. Participants may make only one age-based in-service withdrawal. In addition, a participant who makes an age-based in-service withdrawal may not make a post-employment partial withdrawal of his or her TSP account. (This feature will be available to separated participants after the new TSP record keeping system is implemented, now planned for 2002, on a date to be announced.)

Disbursement and tax consequences. Age-based in-service withdrawals are disbursed as single payments and are taxable income for Federal income tax purposes in the year in which the payment is made. They are “eligible rollover distributions” and are subject to mandatory 20% Federal income tax withholding. They are not subject to the 10% early withdrawal penalty tax.

Participants may ask the TSP to transfer all or any part of their payments to an Individual Retirement Account (IRA) or other eligible retirement plan. The amount the TSP transfers is not taxable income when it is transferred (it becomes taxable income when it is disbursed from the plan to which it was transferred) and, consequently, is not subject to income tax withholding.

B. Financial hardship in-service withdrawal

Eligibility. Employed participants (regardless of age) who demonstrate financial hardship may withdraw their own contributions and attributable earnings from their TSP accounts.

Maximum and minimum amount of withdrawal. The maximum amount of a financial hardship in-service withdrawal is the amount of a participant’s Employee Contributions and attributable earnings **or** the amount of the participant’s demonstrated need, whichever amount is smaller.

Participants specify the requested dollar amount, which must be \$1,000 or more. Participants must demonstrate their financial need of \$1,000 or more by providing financial information and, if applicable, the documentation requested on the application form.

Number of financial hardship in-service withdrawals. There is no restriction on the number of financial hardship in-service withdrawals that a participant may take. However, after a participant receives a financial hardship in-service withdrawal, he or she may not apply for another financial hardship in-service withdrawal for a period of six months.

Other restrictions. Participants who receive financial hardship in-service withdrawals may not make Employee Contributions (and FERS¹ participants will not receive attributable Agency Matching Contributions) for a period of six months. See Section III of this bulletin for more information about this restriction, including agency responsibilities for administering it.

¹ FERS refers to the Federal Employees’ Retirement System, the Foreign Service Pension System, and other equivalent Government retirement plans.

Disbursement and tax consequences. Financial hardship in-service withdrawals are disbursed as lump sum payments and are taxable income for Federal income tax purposes in the year in which the payments are made. In addition, financial hardship in-service withdrawals are subject to the 10% early withdrawal penalty tax if the participant is less than age 59½ at the time of payment.

As explained in the revised in-service withdrawal materials, a financial hardship in-service withdrawal cannot be transferred to an IRA or other eligible retirement plan. The TSP will withhold 10% from the payment for Federal income tax unless the participant requests otherwise.

II. In-Service Withdrawal Products and Forms

A. Booklet

The booklet *TSP In-Service Withdrawals* contains information about the two types of in-service withdrawals, the application process (including additional documentation that must be submitted for financial hardship in-service withdrawals), spousal requirements, and tax consequences.

The Board will send agency central distribution points a supply of the July 2001 booklets. In September 2001, each central distribution point should receive an amount equal to about 20% of its work force. Upon receipt, central distribution points should distribute these booklets to servicing personnel (or administrative) offices within the agency so that personnel (or administrative) offices can provide the booklets to their participants upon request. The booklet is also available on the TSP Web site at www.tsp.gov.

The July 2001 version of the booklet supersedes all prior versions, and agencies should discard their supplies of prior versions when they receive the July 2001 revision.

B. Application forms

Age-based in-service withdrawal. To apply for an age-based in-service withdrawal, participants must complete **Form TSP-75**, Age-Based In-Service Withdrawal Request, and submit the form to the TSP record keeper. To have the TSP transfer all or any part of the payment, participants must also submit **Form TSP-75-T**, Transfer of Age-Based In-Service Withdrawal, which is attached to Form TSP-75. Form TSP-75-T must be completed by both the participant and his or her financial institution or retirement plan administrator.

Financial hardship in-service withdrawal. To apply for a financial hardship in-service withdrawal, participants must complete **Form TSP-76**, Financial Hardship In-Service Withdrawal Request, and submit it to the TSP record keeper. When participants sign Form TSP-76, they acknowledge that the receipt of a financial hardship in-service withdrawal will require termination of

their Employee Contributions (and attributable Agency Matching Contributions for FERS participants) for a six-month period.

Participants must also provide their current earnings and leave statements (even if they are in nonpay status) and, if they list extraordinary expenses on Form TSP-76, they must also submit the appropriate supporting documentation.

Distribution of the forms. The Board has sent agency central distribution points a supply of the July 2001 version of these forms. By now, each central distribution point should have received an amount equal to about 10% of its work force. Upon receipt, central distribution points should distribute the forms to servicing personnel (or administrative) offices within the agency so that personnel (or administrative) offices can provide the forms to their participants upon request. The forms are also available on the TSP Web site at www.tsp.gov or from the TSP Service Office.

The July 2001 versions of these forms supersede all prior versions, and agencies should discard their supplies of prior versions when they receive the July 2001 revisions.

C. Notice “Important Tax Information About TSP In-Service Withdrawal Payments”

This notice, OC 97-13, dated July 2001, describes the tax rules that apply to in-service withdrawals and supplements the information contained in the in-service withdrawal booklet. The notice is part of the application package and is attached to Forms TSP-75 and TSP-76.

III. Contribution Restriction Resulting From Financial Hardship In-Service Withdrawal

A. The restriction

Participants who receive financial hardship in-service withdrawals may not make Employee Contributions to their TSP accounts for a period of six months, as described in section B below. Consequently, if the participants are covered by FERS, they will not receive attributable Agency Matching Contributions during the six-month period. **As long as FERS participants are in pay status during this period, they must receive Agency Automatic (1%) Contributions** (if they are otherwise eligible).²

² Although new FERS employees are immediately eligible to contribute to the TSP, they do not become eligible for agency contributions until the second election period following their appointments. See TSP Bulletin 01-4, Participation in the Thrift Savings Plan, dated February 2, 2001, for more information about eligibility for agency contributions.

B. Non-contribution period

This six-month period is called the “non-contribution period.” The non-contribution period begins on the forty-sixth day after the date the financial hardship in-service withdrawal is disbursed and ends 180 days later. For example, if a financial hardship in-service withdrawal is disbursed on August 3, 2001, the non-contribution period would begin September 18, 2001, and continue through March 16, 2002. This means that no Employee Contributions (or attributable Agency Matching Contributions for FERS participants) may be made at any time during this period. If such contributions are made for pay dates within the non-contribution period, they are deemed to be erroneous and must be removed by the payroll office.

C. TSP record keeper’s responsibilities

1. When a financial hardship in-service withdrawal is disbursed, the TSP record keeper will notify the participant of the payment. The notice will also remind the participant that he or she may not make Employee Contributions (and, if FERS, receive attributable Agency Matching Contributions) during the non-contribution period and will include the starting date of this period.
2. No later than three business days after a financial hardship in-service withdrawal is disbursed, the TSP record keeper will send information to the participant’s payroll office regarding the participant’s non-contribution period. This information will include:
 - a. a cover letter;
 - b. a “non-contribution notice” (TSP-967-AO) for each participant serviced by the payroll office who has received a financial hardship in-service withdrawal. The notice identifies the non-contribution period; and
 - c. a report (Report TSPS5501, Listing of Participants for Whom Financial Hardship In-Service Withdrawals Were Disbursed) that lists each participant for whom a non-contribution notice is generated.
3. If the participant’s payroll office submits Employee Contributions (and/or attributable Agency Matching Contributions for FERS participants) for pay dates within the non-contribution period, the TSP record keeper will process the contributions if the participant’s TSP Status Code is “Y” or “W”.³ However, the contributions are erroneous and must be removed by the payroll office.

Consequently, if erroneous contributions are processed, the TSP record keeper will send the payroll office a report (Report TSPS5521, Erroneous Contributions Submitted for Participants Who Received Financial Hardship In-Service Withdrawals) notifying it of the erroneous contributions which

³ See TSP Bulletin 01-4 for information about TSP status codes.

must be removed by the payroll office through the submission of Negative Adjustment Records (26-Records). The report will list, by pay date, each erroneous contribution which was posted to the participant's TSP account during the reporting month.

4. The TSP record keeper will contact the payroll office periodically until the payroll office submits Negative Adjustment Records to remove the erroneous contributions.
5. If the payroll office fails to remove erroneous Agency Matching Contributions within one year, these erroneous contributions will be removed from the account by the TSP record keeper and used to offset TSP administrative expenses. The record keeper will notify the participant when the erroneous contributions are removed.
6. About three to four weeks before the expiration of the non-contribution period, the TSP record keeper will mail the participant an "eligibility notice." This eligibility notice will inform the participant that his or her non-contribution period is ending and explain what to do if he or she wants to resume making TSP contributions.

D. Participants' responsibilities

To resume contributions after the expiration of the non-contribution period, a participant must complete the TSP Election Form (TSP-1) and submit it with the eligibility notice (described above) to his or her personnel office.

This Form TSP-1 should be accepted even if it is outside a TSP open season.

However, the participant may not be eligible to resume contributions if he or she voluntarily terminated Employee Contributions and has not served the requisite waiting period to resume contributions.⁴

E. Agencies' responsibilities

1. The agency must take the necessary steps to ensure that no Employee Contributions (and attributable Agency Matching Contributions for FERS participants) are made for any pay dates in the participant's non-contribution period.
2. If the participant's status code is "Y" or "W", the agency must change this code and the TSP Status Date. The payroll office must submit an Employee Data Record (06-Record) to reflect the changes.

⁴ By law, participants who voluntarily terminate their contributions during an open season must wait until the next open season to resume contributions; participants who terminate their contributions outside an open season must wait until the second open season to resume contributions. If a participant's voluntary termination of contributions overlaps his or her non-contribution period, the participant cannot resume contributions until the appropriate open season or the expiration of the non-contribution period, whichever is later.

- a. The status code should be changed to “T” (if “Y”) or “S” (if “W”).
- b. The status date must be changed to indicate the effective date of the termination of contributions. The termination is effective the first day of the first pay period in which Employee Contributions may not be made.

For example, if a participant’s non-contribution period begins September 18, 2001, and the pay date for the pay period August 26 through September 8, 2001, is September 20 (assuming a 12-day pay lag), this is the first pay date in the non-contribution period. Consequently, the termination of contributions must be effective August 26, 2001; the participant’s TSP-Status Date must be changed to August 26 so that no contributions are deducted from his or her September 20 pay.

- c. If agency procedures require the determination of the date a participant will become eligible to resume contributions, this date will be the first day of the first pay period with a pay date after the end of the non-contribution period.

For example, if a participant’s non-contribution period ends March 16, 2002, the first pay period with a pay date after that date begins on February 24, 2002. Assuming a 12-day lag, the pay date for this pay period is March 21.

3. If the participant’s status code in the TSP system is currently “T” or “S”, the status code need not be changed. The agency, however, must ensure that the participant does not resume contributions during the non-contribution period.

In addition, the participant may not be eligible to resume contributions at the expiration of the non-contribution period. This is because the statutory waiting period which resulted from his or her voluntary termination of contributions (see footnote 4 above) may not have expired. Consequently, the participant cannot resume contributions until the expiration of the non-contribution period or the appropriate open season, whichever is **later**.

For example, if a participant elected to terminate contributions in August 2001, the participant is not eligible to elect to resume contributions until July 2002 (the last month of the May 15 through July 31, 2002, open season). Consequently, even though the participant’s non-contribution period ended in March 2002, the participant cannot resume contributions before July 2002.

4. The payroll office must continue to submit Agency Automatic (1%) Contributions for FERS participants who are in pay status during the non-contribution period. The payroll office must also continue to submit loan payments for participants with outstanding loans.

5. After the non-contribution period expires, the agency **must not** automatically resume Employee Contributions. A participant **must** submit Form TSP-1 to resume contributions. Form TSP-1 should be accompanied by the eligibility notice.⁵

The agency must make the election on Form TSP-1 effective no later than the first full pay period after receipt of the form, **unless** the pay date for that pay period is before the expiration of the non-contribution period **or** the participant is not otherwise eligible to resume contributions.

If the pay date for the first full pay period after receipt of Form TSP-1 is before the expiration of the non-contribution period, the agency should make the election effective the first pay period with a pay date after the expiration of the non-contribution period.

If the participant is not otherwise eligible to resume contributions, the agency cannot process Form TSP-1 and should return it to the participant with an explanation of why it is being returned.



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Attachments: *TSP In-Service Withdrawals* (July 2001)
Form TSP-75, Age-Based In-Service Withdrawal Request, with Form
TSP-75-T and Notice OC 97-13 (7/2001)
Form TSP-76, Financial Hardship In-Service Withdrawal Package, with
Notice OC 97-13 (7/2001)

⁵ If a participant submits Form TSP-1 during a TSP open season after the end of the non-contribution period, the participant is not required to submit the eligibility notice. However, absent the eligibility notice, the open season election cannot be made effective before the first full pay period of the last month of the open season (i.e., July or January).